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TODAY

THE U.S. SUPREME COURT could decide two wide-ranging banking cases in the next 12 months. One involves the government's responsibilities to borrowers after taking over a failed bank, and the other concerns the government's right to overrule a state's branching regulations, according to a professor of banking law.....2

BANK MANAGEMENT, and not economic conditions, is the cause of many problems at troubled banks, according to a study of such banks that turned around; the study was done by a former Kansas City Federal Reserve Bank economist.....2

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KEEPING CURRENT

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Quote

I think, because of the nature of our business, we know more about AIDS and how desperate the crisis is.

Malcolm MacKay, senior vice president of New York Life, on the company's contribution to a blunt New York City public education campaign about the dangers of AIDS [Page 3]

Unquote

The Risk Behind Parent Company Debt

Firm's Structure Must Be Examined

By JOHN P. FORDE

NEW YORK — Here's a multiple-choice question: When debt investors buy a Citicorp note, are they lending money to:

a) the $197 billion-asset financial behemoth, which can boast a wide range of income sources, including loans, information services, and investment banking, or

b) a much smaller company — with about $42 billion in assets — which derives its income primarily from three sources and which could see a large percentage of its income cut off by regulators if times got rough.

The answer is "b." And it does not apply only to Citicorp.

As was seen in Oklahoma last year, holders of the debt of many major bank holding companies could face problems if those companies' subsidiary banks get into trouble.

This is because of "double leverage," which is the use of parent company debt to finance the operations of subsidiaries. The parent company borrows funds in the form of debt, then passes the proceeds on to its own subsidiaries in exchange for stock. A large part of the parent company's income after this transaction comes from dividends the subsidiary pays on this stock.

In the case of the nation's largest banking company, there are actually two Citicorps. One is the $197 billion-asset consolidated holding company. But, from the debtholder's point of

Risk: Page 10 ➡

Double Leverage at Top N.Y. Banking Firms

On Dec. 31, 1986 (Dollar Amounts in Millions)

	Equity Invested In Subsidiaries Plus Intangibles		Total Equity		Double Leverage Ratio 12/31/86	6/30/86
Citicorp	$16,648	÷	$9,060	=	184%	188%
Manufacturers Hanover Corp.	5,416	÷	3,766	=	144	145
Bankers Trust New York Corp.	3,544	÷	2,721	=	130	116
Chase Manhattan Corp.	6,245	÷	4,883	=	128	125
Chemical New York Corp.	3,544	÷	3,120	=	114	143
J.P. Morgan & Co.	4,724	÷	5,130	=	92	93
Average	$6,687	÷	$4,780	=	140%	142%

Long-term debt includes issues by both holding company and subsidiaries.
Source: Federal Reserve Board FR Y-9 LP filings.

Beefed-Up Thrift Audits Receive Mixed Reviews

Some Complain About Cost and Quality of Exams

By JIM McTAGUE
Washington Bureau

WASHINGTON — A pair of examiners spent two months in a small California thrift recently conducting an examination that, in the past, had routinely been done in two weeks. The cost: $25,400.

"We felt the time and expense of the examination could have been reduced considerably if the examiners had been better trained and more experienced," said Frank Donahoe, chief executive officer at the six-year-old Inland Savings and Loan Association, a $74 million-asset institution in Hemet, Calif.

Mr. Donahoe's complaint is not unique. In July 1985, the Federal Home Loan Bank Board took a bold step and turned over its examination function to the system's 12 member banks. Since then, thrift executives have been paying considerably more for checkups by a new crop of regulators and enjoying the more frequent experiences less than ever.

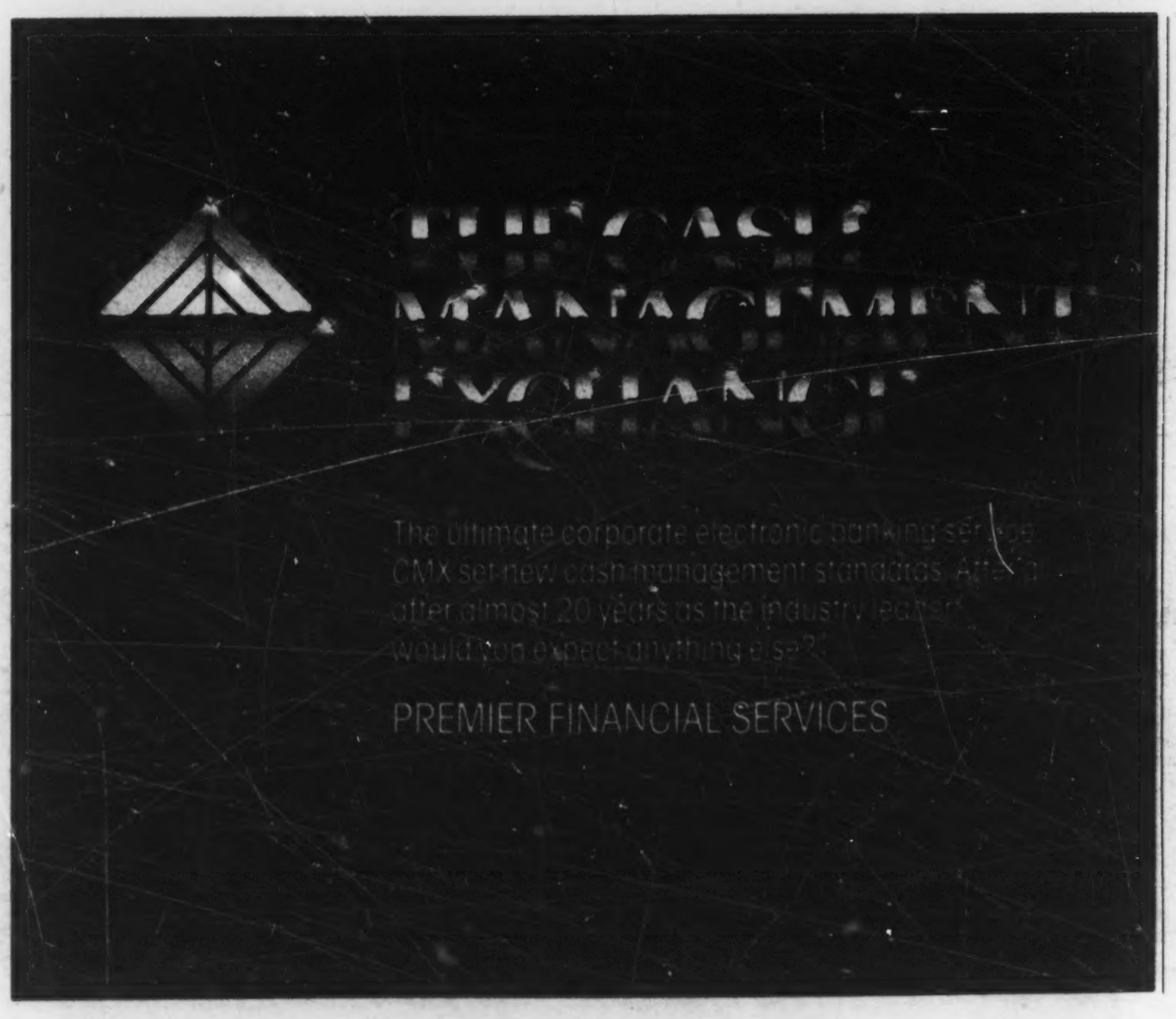
But, said William D. Hussey, president of the Florida League of Financial Institutions, "we're willing to pay the freight now in anticipation of eventual improvements. The industry wants to

Thrifts: Page 15 ➡

Income from Exams

(Thousands of Dollars)	1986	2nd Half 1985*
Boston	$2,706	$557
New York	5,936	166
Pittsburgh	3,349	1,053
Atlanta	9,859	3,367
Cincinnati	6,019	1,861
Indianapolis	3,456	944
Chicago	6,251	1,928
Des Moines	4,581	1,240
Dallas	20,103	3,651
Topeka	3,728	1,012
San Francisco	35,309	21,094
Seattle	3,629	1,028

* Figures represent last six months of the year. First six month's fees were collected by the Federal Home Loan Bank Board. Source: The 12 Federal Home Loan Banks.



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14 Thrifts Ask to Switch to FDIC Insurance

By JIM McTAGUE
Washington Bureau

WASHINGTON — Fourteen thrifts have submitted applications to the Federal Deposit Insurance Corp. for coverage, according to the commercial banking agency.

Eight of the thrifts said they are dissatisfied with various aspects of the Federal Savings and Loan Insurance Corp., including the cost of premiums and examinations.

The remaining institutions said their desire to switch coverages is the result of mergers or acquisitions.

All but three of the applicants are from the East Coast.

The institutions are:

• Atico Savings Bank, Miami, Fla., an institution with $504.3 million in assets that has purchased a commercial bank. Application dated Feb. 2, 1987.

• First Mutual Savings Association of Florida, Pensacola, an $831.9 million-asset institution merging with a Georgia bank. Application dated March 5, 1987.

• First Federal Savings, Madison, Conn., a $274.5 million-asset institution that is seeking a state banking charter because of its liberal commercial loan provisions. Application dated Feb. 18, 1987.

• Savings and Loan Association of Southington, Southington, Conn., a $109.4 million-asset thrift which is merging with Hartford National Bank. Application dated March 10, 1987.

• First Federal Bank of Connecticut, New Haven, Conn., a $1.4 billion-asset thrift that is switching because of the opportunity for broader powers with a state bank charter and because the list of attractive FDIC takeover candidates outstrips the list of possible FSLIC takeovers. Application dated April 1, 1987.

• Shelton Savings and Loan Association, Shelton, Conn., a $107.7 million-asset institution that primarily is upset with FSLIC's double assessments to fund the insolvent deposit insurance pool. Application dated May 4, 1987.

• First Federal Savings and Loan Association, Bowling Green, Ky., a $188.8 million-asset institution that is switching because of "excessive" FSLIC assessments. Application dated March 9, 1987.

• Columbian Building Association, Havre de Grace, Md., a $14.5 million-thrift that objects to FSLIC's fees for insurance and audits. Application dated April 21, 1987.

• Metropolitan Federal Savings and Loan Association, Bethesda, Md., a $528.9 million-asset thrift that is being acquired by the Bank of Baltimore. Application dated Jan. 29, 1987.

• Glen Burnie Savings and Loan Association, Glen Burnie, Md., an $18.1 million-asset institution that objects to FSLIC insurance assessments and examination fees. Application dated Nov. 20, 1986.

• Federal Savings Bank of Maryland, Baltimore, Md., a $67.3 million-asset thrift that is switching because its stockholders requested the change. Application dated Nov. 21, 1986.

• Everett Federal Savings and Loan Association, Everett, Wash., a $178.4 million-asset mutual institution whose customers want FDIC coverage. Application dated March 11, 1987.

• Home Federal Savings and Loan, San Diego, Calif., an $11.9 billion-asset institution that objects to FSLIC's assessments. Application dated March 30, 1987.

• University Federal Savings Bank, Seattle, Wash., a $687 million-asset thrift that wants greater investment flexibility. Application dated March 30, 1987.

Currently, FSLIC assesses thrifts at a rate of one-eighth of 1% of deposits annually for insurance and tacks on a special assessment of one-twelfth of 1% of deposits.

The industry may also be asked to borrow $5 billion to bail out the insolvent fund.

"The costs are out of sight for a small institution," said a spokeswoman at the Columbian Building Association.

Federal Home Loan Bank Board Chairman Edwin J. Gray has asked Congress to approve a hefty exit fee to try to stem any defections from the insolvent FSLIC fund. The loss of insurance premiums could jeopardize the fund's future, he said.

A spokesman at Glen Burnie said his institution would stay with FSLIC if the exit fee was raised from the two years of regular and special premiums proposed by Congress to a much higher figure favored by the Bank Board.

"Two plus two would cost us $60,000. FSLIC's plan would cost us $250,000, and it wouldn't be worth the change then," he said.

Congress is debating the issue.

The Glen Burnie spokesman said FSLIC insurance costs $32,000 per year, while FDIC coverage would only cost $13,000. ■

Thrifts Complain About Home Loan Bank Examiners

➡ Continued from Page 1

clean up its act."

In fact, in a recent statewide poll of savings and loans by the Florida League, executives gave the new crop of examiners better marks than anyone had expected, Mr. Hussey said.

But not everyone agrees with that progress report. "So far, we've seen cost without the benefits," said Brian Smith, director of regulatory affairs for the U.S. League of Savings Institutions.

Mr. Smith said the U.S. League supports the transfer of the examination function from the Bank Board to the 12 Home Loan banks. He added that the industry does not begrudge paying higher salaries for examiners if the wage hike will attract better people.

"If we get value for the money, that's great. But the jury is still out," he said.

Bank Board Chairman Edwin J. Gray delegated authority for examinations to the district banks as a way to circumvent budget restraints on salaries imposed by the Office of Management and Budget.

Mr. Gray said the budget office's constraints prevented him from increasing his work force to deal with a record number of troubled thrifts that has been taxing the Federal Savings and Loan Insurance Corp. fund and, as a direct result, impacting the profits of healthy savings and loans that must pay higher premiums to keep the insurance fund going.

Many FSLIC examiners have sought better-paying jobs. In recent years, turnover has been high, with as many as a quarter of the examiners leaving in a single 12-month period. The Federal Deposit Insurance Corp., which regulates commercial banks, did not experience such difficulties, Mr. Gray claimed, because its budget is not subject to OMB scrutiny.

The district banks, federally chartered institutions that serve as central credit banks for the member institutions that own them, are not subject to the budget office, either. Thus, the 12 banks were free to beef up the examination force and fatten employee salaries once the Bank Board entrusted them with the police powers.

Industry people consider the yet-unproven program one of the few noteworthy innovations introduced by Mr. Gray during his stormy four-year reign, which ends on June 30.

Mr. Gray has noted that the shift permitted the industry to double its examination force from 747 people at yearend 1985 to 1,524 at yearend 1986.

Of this increase, 376 examiners (48.4%) were in the Atlanta, Dallas, and San Francisco bank districts, where many of the most serious industry problems exist.

"The flexibility afforded by the transfer of the examination function also has resulted in hiring a substantial number of additional examiners from among far better qualified candidates than was previously possible," Mr. Gray said in testimony Feb. 19 before the House Appropriations subcommittee that reviews administrative and operating expenses of the Bank Board and other agencies. "Many of the new examiners have advanced degrees in business or finance and have professional designations, such as certified public accountant."

The U.S. League's Mr. Smith said that it is not uncommon now for examiners to be at an institution for three to four weeks instead of a week or two.

"A number of institutions get a bit annoyed when the examiners are around and the meter is running," he said.

The cost is particularly irksome to institutions when the examiners are rookies, he said.

Individual institutions believe that they are being charged for on-the-job training that ought to be shared by the industry as a whole, he said.

"Some bear it philosophically. Some get fed up."

An example of the latter is one East Coast savings and loan that is becoming a commercial bank to escape the high cost of regulation and insurance.

"We're not getting our money's worth. Their exams are a farce. The examiners are poorly qualified if they are qualified at all," said an executive at that company, who asked not to be named.

A total of 14 thrifts plan to leave the FSLIC fund, and eight have indicated to the *American Banker* that the switch was prompted by the high cost of examinations and insurance premiums.

The Bank Board concedes the new program has some bugs.

"We've been building staff rapidly, and that has resulted in some inefficiency," said Robert J. Moore, deputy director of field services.

"Senior people are pushing and developing our people rapidly. We're not there yet, but we're getting there," Mr. Moore said.

Frank Passarelli, senior deputy director for policy, said that despite the fee increases for examinations, the district banks still are not covering their costs.

"They're not trying to make a profit from this. There are expenses involved that must be offset," he explained.

S&L trade groups appear confident that the glitches will be worked out.

"There's a level of expertise yet to be reached," said Dennis Montgomery, president of the Illinois League of Savings Institutions. "We realize there is a learning curve, and we anticipate a stronger, more viable force." ■

Checkup Charges

What Members Pay for Exams by 12 Federal Home Loan Banks

ATLANTA: Regular, $296/day per examiner; Special, $520/day per examiner.

BOSTON: $300/day per examiner, regular; special $500/day per examiner.

CHICAGO: Regular examination, $325/day per person; Special $618. Annual assessment fee of $20 per million assets.

CINCINNATI: Regular, $315/day per examiner; Special, $565/day per examiner.

DALLAS: $360/day per examiner for regular ($250 per trainee); Special $595/day per examiner.

DES MOINES: Not available.

INDIANAPOLIS: Regular or Special, $280/day per examiner.

NEW YORK: The cost of regular exams depends on the experience of the examiners, but cannot exceed a $285/day average cost. Entry-level examiners cost $171/day; experienced examiners, $285/day; $313.50/day for senior examiners; and $342 for field managers. Special exams cost $475/day per examiner.

PITTSBURGH: $175/day for trainees; $275/day for field examiners; and $425/day for management personnel.

SAN FRANCISCO: $10 per $1 million of assets assessed annually. There is also an examination fee based on the experience of the examiner. Field manager, $75/hr.; senior examiner and specialist, $55 /hr.; Examiners, $45/hr.; and assistants, $25 hr.

SEATTLE: Regular exam,$45 to $60 per hour, depending on experience of examiner.

TOPEKA: Regular, $250/day per examiner; Special, $475/day.

Source: The 12 Federal Home Loan Banks

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